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## **Final 2016-17 Pool Rate for Welsh Local Authorities**

### **Summary**

1. This paper includes the final calculations of the 2016-17 pool rate of interest for Local Authorities in Wales. Local Authority debt profiles are used to calculate an average interest rate, which is then used to determine the debt financing element of the Revenue Settlement.
2. The pool rate of interest used in the 2016-17 Settlement is 6.1%, slightly higher than the 2015-16 Settlement at 5.9%.

### **Views sought**

3. For information only.

## ***Distribution Sub-Group (2016) Paper 03 – Pool Rate 2016-17***

### **Background**

4. The Partnership Council introduced a pool rate of interest for Welsh Local Authorities for the 2000-01 Settlement. The method used is similar to that used by the Department of Communities and Local Government (DCLG), except that:
  - a full set of Welsh Local Authority data is used;
  - information on non-Public Works Loan Board (non-PWLB) debt is one year more recent than in the DCLG model; and
  - supported borrowing is reversed out of the calculation.
5. The pool rate is calculated on the basis of:
  - the latest available information (31st March 2015) about the outstanding PWLB and non-PWLB long term and short term Local Authority debt;
  - the average interest rates associated with that debt; and
  - the assumption that net new borrowing is derived from supported borrowing totals.
6. From 2010-11 onwards the pool rate of interest used to determine the debt financing element of the Revenue Settlement has unsupported borrowing reversed out of total outstanding debt.
7. The pool rate is used to determine the debt financing element of the Revenue Settlement. In the past the pool rate has also been used as the interest rate for calculating PFI revenue support.

### **Calculation of the 2016-17 Pool Rate**

8. Net new borrowing for 2015-16 and 2016-17 was £10.72m and £16.74m respectively and was calculated as 'supported borrowing less maturing debt' (*top two lines in Table 5 in Annex A*).
9. The first line of table 1 in Annex A shows the amount of new unsupported borrowing in each year since prudential borrowing was introduced.
10. Lines 2 to 9 show the amounts of all new borrowing by UK Local Authorities from the PWLB.
11. The corresponding interest rates are shown at line 10. This information in table 1 is used to derive notional residual maturities for unsupported borrowing that are set out in lines 2 to 14 in table 2. This assumes that Welsh debt financed by unsupported borrowing assumes the same residual maturity profile as all UK Local Authority borrowing.
12. The amount outstanding at line 17 takes into account debt redeemed. This assumes that debt maturing within a year is not refinanced. The interest rate for notional outstanding debt also assumes that new supported borrowing is borrowed at the same rate as all UK Local Authority borrowing for the year in question.
13. The important data in table 2 are the notional amount outstanding at the end of 2014-15 (£1,420.6m) and the average rate of interest of 3.5%. These are the figures that are reversed out of the pool rate calculation for use in the Revenue Settlement.
14. Tables 3 and 4 show the residual maturities of long term PWLB and non-PWLB debt. Table 3 shows the adjustment for the unsupported borrowing which assumes that all unsupported borrowing is provided by the PWLB. As expected the adjustment reduces the amount outstanding and leaves the interest rate slightly higher as the unsupported borrowing has a lower rate of interest.

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### **Conclusion**

15. Table 3 shows that around £2.9 billion of debt is outstanding to the PWLB, and the average rate of interest for PWLB debt has fallen from 5.52% in the 2015-16 calculation, to 5.37% in 2016-17.
16. Table 4 shows the non-PWLB long-term debt. The average rate of interest of 4.37% is greater than last year's rate of 3.86%. Around £797 million is outstanding to non-PWLB bodies, around £23 million less than last year (£820 million).
17. Table 5 shows the calculation of the pool rate used to determine the debt financing element of the revenue settlement, **which gives a rate of 6.1%**.
18. The majority of Local Authority debt is financed through the PWLB. Table 6 shows the total amount of PWLB debt outstanding for each Authority in Wales paying average rates of interest ranging from 2.25% to 9.31%.
19. The group agreed in the May (2015) meeting that the basket of loans taken out through PWLB totalling £919 million to fund the buyout from the HRA subsidy scheme would be excluded from the pool rate calculations for the 2017-18 Settlement onwards. This basket of loans has no impact on the pool rate calculations for the 2016-17 Settlement.

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**Annex A**

**Table 1: Welsh unsupported and all UK new borrowing**

		<b>£m</b>										
		2004-05*	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Unsupported borrowing	30.5	62.5	97.2	163.7	125.0	106.1	144.4	175.8	205.1	213.0	234.7
	New borrowing:											
2	Up to 5 years	762.2	579.8	129.4	722.8	3,029.2	1,057.3	880.0	492.0	110.0	34.0	82.0
3	Over 5 but not over 10 years (£m)	85.8	386.0	83.6	336.3	491.5	1,744.6	1,934.0	2,114.0	542.0	564.0	95.0
4	Over 10 but not over 15 years (£m)	22.8	48.0	1.7	99.6	153.0	641.7	278.0	2,120.0	1,145.0	440.0	344.0
5	Over 15 but not over 25 years (£m)	254.4	540.3	279.6	65.2	65.8	710.4	1,224.0	4,470.0	1,140.0	447.0	632.0
6	Over 25 but not over 30 years (£m)	4,236.8	3,914.1	664.4	666.2	91.9	296.7	142.0	2,793.0	114.0	8.0	329.0
7	Over 30 but not over 40 years (£m)		330.4	1,009.0	1,574.7	571.6	104.7	101.0	1,490.0	47.0	22.0	217.0
8	Over 40 years (£m)		3,000.1	10,153.9	6,535.4	1,866.7	509.2	696.0	2,632.0	61.0	109.0	888.0
<b>9</b>	<b>Total</b>	<b>5,362.0</b>	<b>8,798.7</b>	<b>12,321.6</b>	<b>10,000.2</b>	<b>6,269.7</b>	<b>5,064.6</b>	<b>5,255.0</b>	<b>16,111.0</b>	<b>3,159.0</b>	<b>1,624.0</b>	<b>2,587.0</b>
10	Average interest rates (%)	4.69	4.19	4.29	4.55	3.37	3.25	3.26	3.20	3.07	3.38	3.38

\* New UK borrowing maturing over 25 years not disaggregated for this year

Source: STATSWALES/Annual Reports of the Public Works Loan Board

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**Table 2: Notional residual maturities and amounts outstanding for unsupported borrowing**

	£m										
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>1 Total unsupported borrowing</b>	<b>30.5</b>	<b>62.5</b>	<b>97.2</b>	<b>163.7</b>	<b>125.0</b>	<b>106.1</b>	<b>144.4</b>	<b>175.8</b>	<b>205.1</b>	<b>213.0</b>	<b>234.7</b>
2 1 year	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5
3 1-2 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5
4 2-3 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5
5 3-4 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5
6 4-5 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5
7 5-6 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7
8 6-7 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7
9 7-8 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7
10 8-9 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7
11 9-10 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7
12 10-15 years	0.1	0.3	0.0	1.6	3.1	13.4	7.6	23.1	74.3	57.7	31.2
13 15-25 years	1.4	3.8	2.2	1.1	1.3	14.9	33.6	48.8	74.0	58.6	57.3
14 25+ years	24.1	51.5	93.3	143.7	50.4	19.1	25.8	75.5	14.4	18.2	130.1
<b>15 Cumulative unsupported borrowing</b>	<b>30.5</b>	<b>93.0</b>	<b>190.2</b>	<b>353.9</b>	<b>478.9</b>	<b>585.0</b>	<b>729.4</b>	<b>905.2</b>	<b>1,110.3</b>	<b>1,323.3</b>	<b>1,558.0</b>
<b>16 Amount redeemed</b>	<b>0</b>	<b>0.9</b>	<b>1.7</b>	<b>1.9</b>	<b>4.3</b>	<b>16.3</b>	<b>20.0</b>	<b>24.6</b>	<b>25.6</b>	<b>25.7</b>	<b>16.5</b>
Cumulatively redeemed	0	0.9	2.6	4.5	8.7	25.1	45.1	69.6	95.2	120.9	137.4
<b>17 Notional amount outstanding</b>	<b>30.5</b>	<b>92.1</b>	<b>187.6</b>	<b>349.4</b>	<b>470.2</b>	<b>559.9</b>	<b>684.3</b>	<b>835.6</b>	<b>1,015.1</b>	<b>1,202.4</b>	<b>1,420.6</b>
<b>18 Interest rate (%)</b>	<b>4.7</b>	<b>4.4</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b>	<b>4.0</b>	<b>3.8</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>	<b>3.5</b>

**Table 3: Local Authority Long term debt - PWLB data**

		Balance outstanding at 31/03/2015 (£million)	Average rate of interest (%)
Maturity within	1 year	53.8	6.80
	1-2 years	54.5	6.06
	2-5 years	177.2	6.28
	5-10 years	376.8	5.80
	10-15 years	308.9	5.49
	15-20 years	300.1	4.72
	20-25 years	177.5	4.53
	25-30 years	150.1	4.65
	30-35 years	152.6	4.84
	35-40 years	567.0	5.06
	40-45 years	527.5	5.89
	45+ years	19.0	3.51
			<b>2,864.7</b>
Adjustment for unsupported borrowing			5,023.1
<b>Adjusted for unsupported borrowing</b>		<b>1,444.1</b>	<b>7.18</b>

**Table 4: Local Authority Long term debt – non PWLB data**

		Balance outstanding at 31/03/2015 (£million)	Average rate of interest (%)
Maturity within	1 year	24.3	0.63
	1-2 years	17.6	2.64
	2-3 years	49.5	1.26
	3-4 years	21.6	3.74
	4-5 years	46.3	7.96
	5-6 years	0.1	0.00
	6-10 years	3.8	8.17
	10-15 years	0.0	0.00
	15+ years	633.4	4.54
			<b>796.6</b>

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**Table 5: Calculation of pool rate of interest used to determine the debt financing element of the revenue settlement for 2016-17**

<b>Basic data</b>	<b>Total</b>	
Supported borrowing less maturing debt 2015-16 <sup>1</sup>	10.72	
Supported borrowing less maturing debt 2016-17 <sup>2</sup>	16.74	
PWLB share assumed <sup>3</sup>	64 %	
Non-PWLB share <sup>3</sup>	36 %	
	<b>balance</b>	<b>average</b>
	<b>outstanding</b>	<b>interest rate</b>
PWLB debt * at 31 March 2015	1,444	7.2
plus PWLB new debt 2015-16	7	2.6 <sup>4</sup>
plus non-PWLB debt at 31 March 2015	797	4.4
plus non-PWLB new debt 2015-16	4	2.6
equals		
<b>Total debt at 31 March 2016</b>	<b>2,251</b>	<b>6.2</b>
plus PWLB new debt 2016-17	11	2.6
plus non-PWLB new debt 2016-17	6	2.6
equals		
<b>Total debt at 31 March 2017</b>	<b>2,268</b>	<b>6.1</b>
Average for 2016-17	2,260	<u>6.1</u>

**Notes:**

**1. Increase in borrowing for 2015-16 is based new supported borrowing for unitaries (£88.800) and police authorities (£0m) less debt maturing within the year (£78.079).**

**2. Increase in borrowing for 2015-16 is based new supported borrowing for unitaries (£88.800) and police authorities (£0m) less debt maturing within the year (£72.063).**

**3. The assumed non-PWLB/PWLB split for new debt is based on the ratio of PWLB to non-PWLB outstanding long term debt as at 31/03/2015.**

**4. Quarterly average of yield from British Government Securities, 20 year Nominal Zero Coupon (Series IUQALNZC). See the statistics output from the Bank of England (BoE) on <http://www.bankofengland.co.uk/>**

**\* PWLB Debt at 31 March 2015 has been adjusted for unsupported borrowing**

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**Table 6: Local Authority PWLB debt**

<b>Authority Name</b>	<b>Total Debt (£,000)</b>	<b>Average Interest Rate</b>
Isle of Anglesey	89,583	5.72%
Gwynedd	94,299	6.04%
Conwy	74,170	5.84%
Denbighshire	144,772	5.40%
Flintshire	153,163	5.48%
Wrexham	111,799	5.85%
Powys	105,790	4.84%
Ceredigion	106,797	4.83%
Pembrokeshire	78,598	6.85%
Carmarthenshire	275,638	5.10%
Swansea	212,981	6.06%
Neath Port Talbot	127,926	5.05%
Bridgend	77,617	4.70%
The Vale of Glamorgan	90,266	5.38%
Rhondda Cynon Taf	109,297	4.81%
Merthyr Tydfil	59,784	7.60%
Caerphilly	177,679	5.29%
Blaenau Gwent	78,698	4.34%
Torfaen	52,378	5.24%
Monmouthshire	54,539	4.32%
Newport	70,131	6.47%
Cardiff	418,077	5.33%
<b>Total Unitary Authorities</b>	<b>2,763,982</b>	<b>5.43%</b>
Dyfed-Powys Police	2,599	9.31%
Gwent Police	4,260	5.85%
South Wales Police	19,343	3.79%
North Wales Police	3,095	3.01%
<b>Total Police Authorities</b>	<b>29,298</b>	<b>4.50%</b>
Mid and West Wales Fire	15,526	3.65%
North Wales Fire	17,940	2.25%
South Wales Fire	37,952	4.07%
<b>Total Fire Authorities</b>	<b>71,418</b>	<b>3.52%</b>
<b>Total All Authorities</b>	<b>2,864,698</b>	<b>5.37%</b>



**Related papers**

*Distribution sub-group (2015)*

- Paper 05: Final 2015-16 Pool Rate for Welsh Local Authorities

*Distribution sub-group (2014)*

- Paper 03: Final 2014-15 Pool Rate for Welsh Local Authorities

*Distribution sub-group (2013)*

- Paper 17: Final 2013-14 Pool Rate for Welsh Local Authorities

*Distribution sub-group (2012)*

- Paper 18: Pool Rate for Welsh Local Authorities – Final Calculation for 2012-13

*Distribution sub-group (2011)*

- Paper 8: Pool Rate for Welsh Local Authorities – Final Calculation for 2012-13

*Distribution sub-group (2010)*

- Paper 04: Pool rate for Welsh Local Authorities – Final Calculation for 2010-11

*Distribution sub-group (2009)*

- Paper 27: Pool rate calculation – reversing unsupported borrowing out of total outstanding debt
- Paper 04: Pool Rate for Welsh Local Authorities – Final Calculation for 2009-10